

REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

AUDIT OF SAM'S TOWN CASINO CONTRACT COMPLIANCE FOR OPERATING YEARS 2006-2007

INTERNAL AUDIT REPORT 220308-09

June 26, 2008



June 26, 2008

Councilman Joe Shyne
Chairman, Shreveport City Council

Dear Councilman Shyne:

Subject: IAR 220308-09 - Audit of Sam's Town Casino - Contract Compliance for
Operating Years 2006-2007

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

Leanis L. Graham, CPA, CIA
City Internal Auditor

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**EXECUTIVE SUMMARY
AUDIT OF
SAM'S TOWN CASINO - CONTRACT COMPLIANCE
FOR OPERATING YEARS 2006-2007
INTERNAL AUDIT REPORT (IAR) 220308-09**

The purpose of the executive summary is to convey in capsule form the significant issues of the audit report. The executive summary is a vehicle for reviewing the report and should only be used in conjunction with the entire report.

INTRODUCTION

On March 10, 1998, the City entered into a lease agreement with Red River Entertainment (Harrah's). In May 2004, Harrah's Shreveport was sold to Boyd Gaming Inc. and was renamed Sam's Town. The end of 2007 was the casino's fourteenth year of operation.

RECOMMENDATION EVALUATION RISK CRITERIA

The chart below summarizes the recommendations outlined in the report and our evaluation of risk for the recommendations. We evaluated the importance of each audit recommendation by assigning each a level of risk. The risk levels, as defined in the chart below, were determined based on the possible results for the entity if the recommendation is not implemented.

<i>Risk Levels</i>	<i>Recommendations</i>
<p style="text-align: center;">High Risk</p> <p>Possibility of fraud, waste, and abuse of City assets; Interrupted and/or disrupted operations; Entity's mission not being met; Adverse publicity.</p>	<p>No recommendations are applicable.</p>
<p style="text-align: center;">Medium Risk</p> <p>Possibility of continuing, significant operating inefficiencies and high-level non-compliance issues.</p>	<p>Sam's Town Casino should:</p> <ul style="list-style-type: none"> · Strengthen procedures to achieve the voluntary procurement goals. (Finding 1) · Strengthen the review of vendors for M/WBE designation. (Finding 2) <p>The City should:</p> <ul style="list-style-type: none"> · Appoint the full complement of persons to the Advisory Council. (Finding 3) · Require Advisory Council members to sign a conflict of interest disclaimer. (Finding 3) · Designate a City contact to maintain documentation such as the Advisory Council minutes and the quarterly State Gaming compliance reports. (Finding 3)
<p style="text-align: center;">Low Risk</p> <p>Possibility of continuing operating inefficiencies and some low-level non-compliance issues.</p>	<p>No recommendations are applicable.</p>

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AUDIT OF SAM'S TOWN CASINO - CONTRACT COMPLIANCE FOR OPERATING YEARS 2006-2007 INTERNAL AUDIT REPORT (IAR) 220308-09

OBJECTIVES

We have completed an audit of the ground lease between the City as landlord, and Boyd Gaming (Sam's Town) as tenant. Our objectives were to determine whether the tenant:

- Remitted the correct amount of gaming, rent, and adjusted gross receipts to the City.
- Complied with the Equal Opportunity Employment and Affirmative Action Plan.

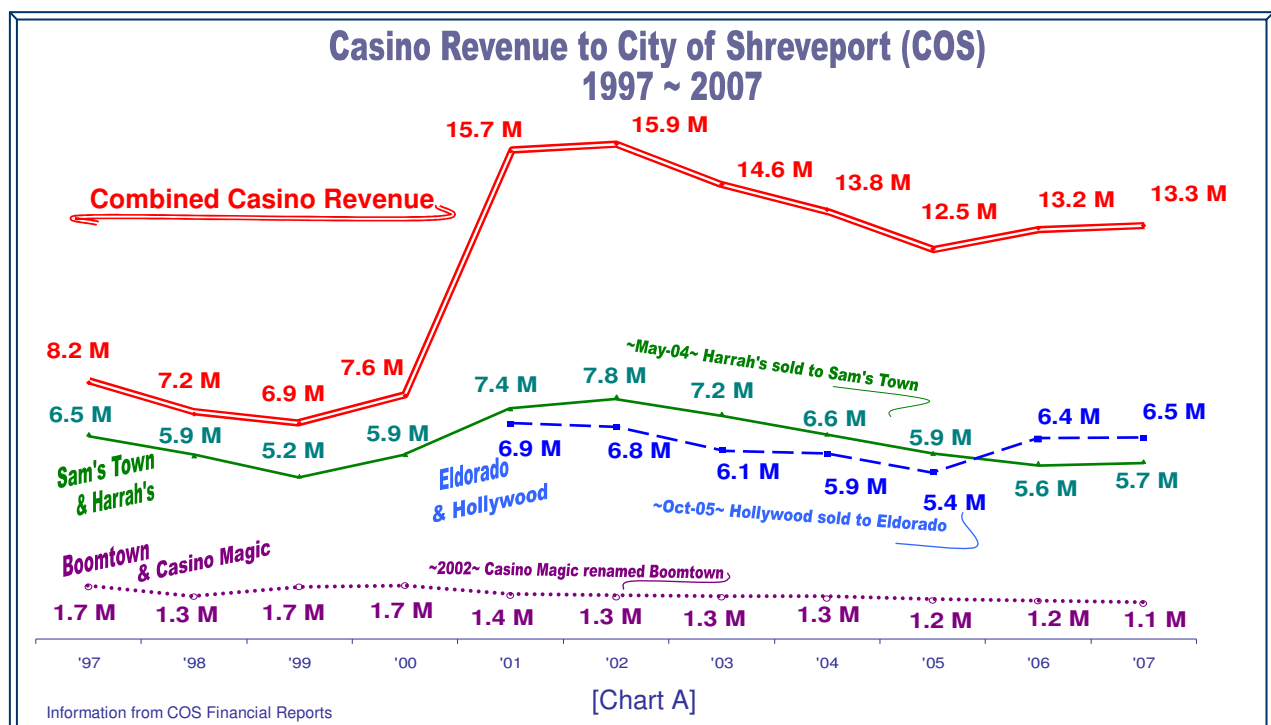
SCOPE AND METHODOLOGY

Our audit was performed in accordance with generally accepted governmental auditing standards as defined in Section A.20 of the Internal Audit Office Operating Instructions Manual. The scope of the study of internal control was limited to the general controls surrounding our objectives for the operating years 2006 and 2007. Audit procedures applied included the following:

- Reviewing applicable records and documents.
- Interviewing appropriate operating personnel and management.

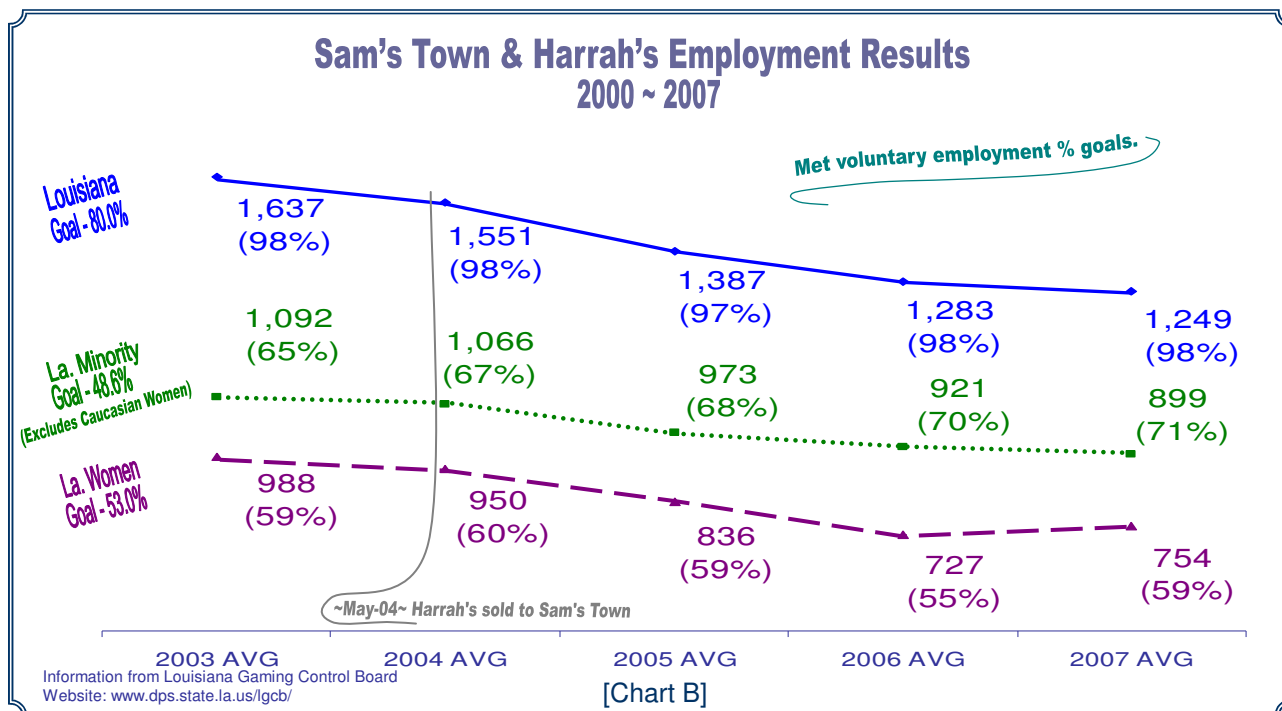
BACKGROUND

In May 2004, Sam's Town purchased Harrah's which had been operating since April 1994. Sam's Town is one of three casinos in which the City of Shreveport receives revenue. A summary of the revenues received over the last ten years from each casino and from all the casinos combined is provided below in *Chart A*.



Sam's Town reports to the Louisiana State Gaming Control Board monthly revenue and admissions; employment results including total, Louisiana, minority, and women; and procurement results including percentage of Louisiana, minority, and women-owned businesses.

As illustrated below in *Chart B*, Sam's Town Casino has achieved its employment voluntary goals of 80% Louisiana employees, 48.6% minority employees, and 53% women employees.



CONCLUSIONS/FINDINGS/RECOMMENDATIONS

The Internal Audit Office expresses appreciation to the management and personnel of Sam's Town Casino for their cooperation and assistance provided during our audit. Based on the results of our audit, we determined that the City was paid per the terms of the agreement.

Based on our review, we believe that addressing the following concerns could enhance the efficiency and control environment:

Sam's Town Casino

- Achieving the voluntary procurement goals.
- Strengthening the procedure to verify vendors as minority/women-owned businesses.

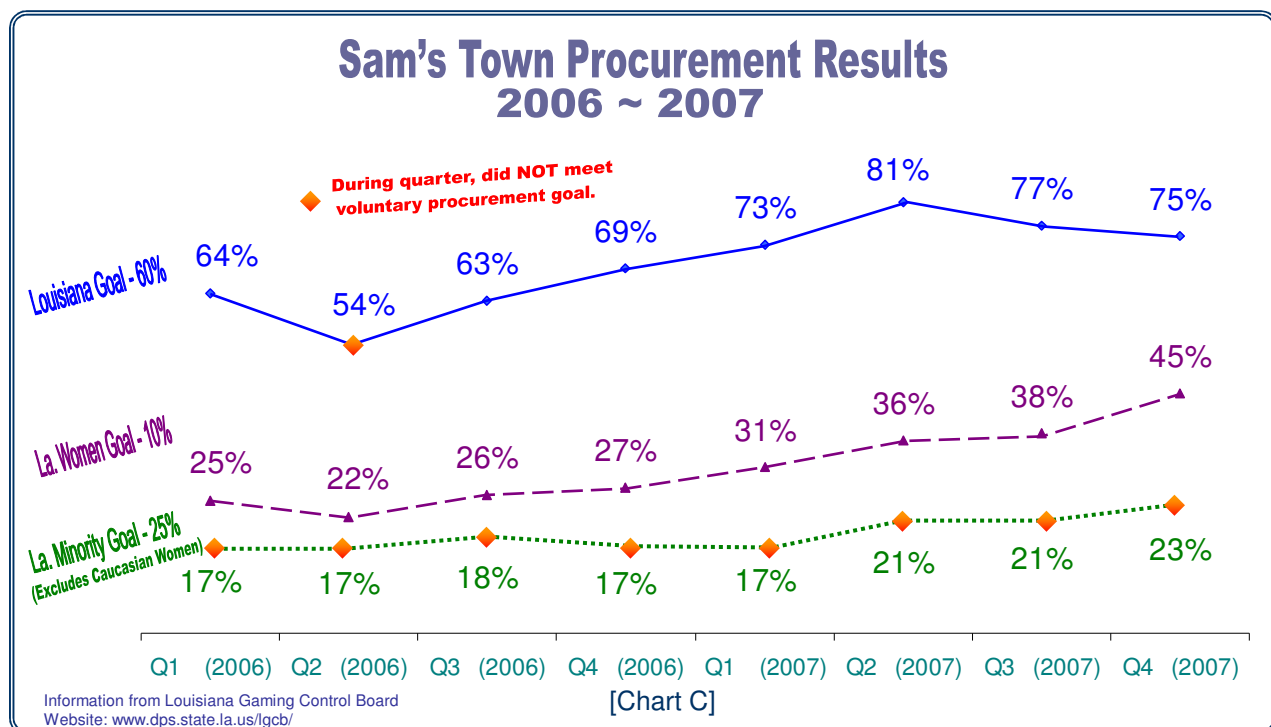
City of Shreveport

- Appointing members to the Advisory Council.
- Requiring the Advisory Council members to sign a conflict of interest disclaimer.
- Designating a City contact to coordinate the reporting and recordkeeping functions such as maintaining the Advisory Council minutes and the quarterly State Gaming compliance reports.

1. Voluntary Procurement Goals

Criteria: When granted a riverboat license, the riverboat casino licensees make voluntary specific employment and procurement goals. Sam's Town's procurement goals are to spend 60% towards Louisiana-owned companies, 25% with Louisiana minority-owned companies, and 10% with Louisiana woman-owned companies.

Condition: During the audit period of 2006 and 2007, Sam's Town did not always achieve its voluntary procurement goals. As illustrated below in *Chart C*, the quarters in which the voluntary goals were not met are indicated by the ♦ symbol.



Effect:

- Possibility that minority and Louisiana vendors have less business.
- Negative publicity.

Cause: Management has stated the primary reasons were: vendor availability, vendor suitability, product quality, service limitations, and pricing concern.

Recommendation: We recommend that Sam's Town continues to make good faith efforts towards the voluntary procurement goals.

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Management Plan of Action: In response to the voluntary procurement exceptions noted in the recent contract compliance audit, Sam's Town Hotel and Casino respectfully submits the following explanation.

The property's failure to achieve the voluntary minority procurement goal during the audit period was by no means due to a lack of effort. In fact, procurement from minority-owned (MBE), women-owned (WBE), or Louisiana-owned (LBE) businesses enterprises is a crucial part of the Boyd Gaming Corporation diversity initiatives.

In any given quarter or period, we experience routine combinations of factors that may impede our ability to meet our voluntary MBE, WBE, or LBE procurement goals. These factors include, but are not limited to, supplier availability, supplier suitability, product quality, service limitations, and pricing. In addition, certain regional, cyclical or limited source high dollar expenditures by nature can also offer little or no practical opportunity for MBE, WBE, or LBE involvement, thereby increasing the total included expenditures for procurement goal reporting purposes and skewing the applicable procurement goal percentages in an adverse direction.

Over the past several years, Boyd Gaming Corporation has launched a number of important initiatives designed to ensure that MBE's, WBE's, and LBE's are provided the maximum opportunity to do business with all Boyd Gaming properties. These initiatives provide expanded access and opportunity for MBE's, WBE's, and LBE's with the key aspects being as follows:

- Addition of new staffing resources, including Joe Coe, our Director of Supplier Diversity, who are tasked with increasing diverse supplier utilization and improving the accuracy and reporting of diversity expenditures for each property;
- Implementation of our Internet-based Boyd Electronic Sourcing Tool (BeST), which is a web based portal that outlines our company diversity efforts (<https://suppliers.boydgaming.com/>);
- Creation of an online application form for all suppliers that enables proper classification and designation of business enterprises;
- Enhancements to our financial systems to better report diversity spending; and
- Additional corporate oversight and accountability of property expenditures.

Additionally, in late 2007, the company performed an overall review of vendor classifications and designations within our AP systems to help ensure consistency and accuracy in the reporting of diversity expenditures. This review identified a number of suppliers that were incorrectly coded for diversity reporting purposes, both favorably and unfavorably. It also identified inconsistencies in the classification and documentation of our diverse suppliers across the various gaming jurisdictions in which we operate.

As such, to the extent possible, efforts are currently underway to standardize our diversity classification and documentation processes across all of the gaming jurisdictions in which we operate. It is our desire for all MBE, WBE, or LBE suppliers that we utilize to be documented via some form of certification or verification beyond a mere affidavit.

However, we realize that exceptions may continue to exist into the future for smaller or less advanced suppliers providing limited dollar amounts of goods or services. In these situations, it simply is not feasible for the supplier or the property to pursue certification or verification measures beyond an affidavit.

In closing, please note that Sam's Town Hotel and Casino routinely exceeds the voluntary WBE and LBE procurement goals by significant margins, thus demonstrating our commitment toward our local community and state. As with many licensees, we often struggle with meeting our voluntary MBE procurement goal due to factors beyond our control. However, through our tireless efforts and noted supplier diversity initiatives, it is our expectation that Sam's Town Hotel and Casino and Boyd Gaming Corporation will continue to experience growth in procurement from a more robust base of diverse suppliers.

2. Verification of Minority/Women-Owned Vendor Status

Criteria: As a measure of a casino's accomplishments toward minority/women vendor procurement, a quarterly report is submitted to the City detailing minority business enterprise (MBE) and women business enterprise (WBE) vendor procurement. Reliance is placed on the accuracy of this report and the surrounding control environment to determine compliance with MBE and WBE procurement goals.

Condition: During a review of the MBE and WBE vendor list, we noted that Sam's Town requires that vendors provide ownership documentation and a notarized affidavit asserting the vendor's MBE and WBE status. Additionally, Sam's Town vendor application form requests information regarding any MBE and WBE certifications obtained by the vendor.

However, because there was no site visit or other independent verification performed, we believe this procedure needs to be strengthened because it does not provide enough assurance that a vendor is an MBE/WBE.

Effect: Possible inaccurate classification of MBE/WBE.

Cause: There are no consistent standards for verifying MBE/WBE vendor certifications.

Recommendation: We recommend that Sam's Town consider the following possibilities of verifying vendors as MBE and WBE:

- Utilize other certifying entities such as the City of Shreveport's business certification programs whereby vendors could be evaluated for minority/female business status;
- Evaluate whether the process of licensing vendors by the Louisiana State Police can be relied upon for MBE/WBE purposes. If the process is acceptable, then 98% of the vendor expenditures will be regarded as MBE certified:
 - ◆ 7 vendors representing 92% of the expenditures have an MBE certification: This process provides the most assurance that a vendor is an MBE or WBE because site visits and review of ownership and financial documentation are performed.

- ♦ 3 vendors representing 6% of the expenditures are licensed: Vendors that do at least \$200,000 worth of business with a casino are licensed by the Louisiana State Police as a suitable vendor. During this process, the Louisiana State Police performs a site visit and reviews ownership and financial documentation. A recertification is performed every 5 years. However, the Louisiana State Police does not provide an MBE or WBE certification. Although no MBE/WBE certification is given, this process does provide assurance that the stated owners are truly operating the business.
- ♦ 7 vendors representing 2% of the expenditures do not have an MBE certification or a license.
- Adopt a formal process of evaluating a vendor's MBE and WBE status. This process, at a minimum, should include certification training, documented site visits, and review of appropriate documentation;
- Contract a consultant to perform MBE and WBE verifications.

Management Plan of Action: Refer to Finding 1 "Management Plan of Action" on page 6.

3. Advisory Council

Criteria: The Equal Opportunity Employment and Procurement Advisory Council (the "Advisory Council") was established by the casino and the City in an effort to meet and increase the voluntary procurement goals established with the Louisiana Gaming Control Board. The Advisory Council is to meet on a quarterly basis with the overall objective of expanding the level of MBE and WBE procurement, and increasing the number of minorities in management positions.

Condition: A review of the quarterly meetings held during the audit period of 2006 and 2007 indicated the City has not appointed the full complement of three members to the Advisory Council.

Furthermore, we noted that the following procedures have not been instituted to improve oversight of Advisory Council operations:

- The Advisory Council members have not been required to sign a conflict of interest disclaimer.
- The City has not designated a contact to maintain the meeting minutes and quarterly reports.

Effect: The Advisory Council cannot effectively perform its oversight duties.

Cause: Management oversight.

Recommendation: We recommend that the City:

- a. Appoint members to the Advisory Council.
- b. Require Advisory Council members to sign a conflict of interest disclaimer.
- c. Designate a City contact to maintain recordkeeping information such as the Advisory Council minutes and compliance reports.

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Management Plan of Action:

- a. We have secured a listing of the councils from Fair Share, as well as, a listing of candidates to fill the vacant position on each. We will make the appointments shortly.
- b. We will additionally require the members (as with all boards) to sign the disclaimer.
- c. We will also appoint our designee to maintain appropriate reports.

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City Internal Auditor

BP:lp

- c: Mayor
- CAO
- City Council
- Clerk of Council
- City Attorney
- External Auditor
- Director of Finance
- Sam's Town Casino